

From Chairman:
The Rt. Hon. John Peyton, ~~MP~~
6 Temple West Mews,
West Square,
London, S.E.11.
Telephone 01-582 3611



**TEXAS INSTRUMENTS
LIMITED**

A WHOLLY OWNED SUBSIDIARY OF TEXAS INSTRUMENTS INCORPORATED OF
DALLAS, TEXAS, U.S.A.

MANTON LANE BEDFORD MK41 7PA ENGLAND
TELEPHONE: BEDFORD 57466 CABLES: TEXINLIM BEDFORD TELEX: 82178

Mr John Coles
Private Secretary to The Prime Minister
10 Downing Street
LONDON SW1

28 June 1983

Done
Mr 20/7
h.c.

Dear John

Here is the letter about which we spoke on the telephone this morning.

I would be very grateful if you would be kind enough to put it in front of the Prime Minister.

Yours truly

John Peyton

Thank you very much.



28 JUN 1985

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From Chairman:
The Rt. Hon. John Peyton, MEX
6 Temple West Mews,
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MANTON LANE · BEDFORD MK41 7PA · ENGLAND
TELEPHONE: BEDFORD 67456 · CABLES: TEXINLIM BEDFORD · TELEX: 92178

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

28 June 1983

Dear Prime Minister

Prime Minister
If you agree I will state him to the
unpl letter and say that you hope it
will be possible to arrive at an early
decision.

Now that we are nearing the end of the HARM/ALARM argument, Godfrey Messervy, Chairman of Lucas and I are satisfied that we have enjoyed some success. We also feel anxiety lest we have failed to eliminate some fairly deep rooted misconceptions.

A.S.C. 29/7.

We are reasonably confident that so far as the merits of the two missiles are concerned we have had the better of the argument; HARM exists and works; moreover the RAF need it and want it. It also enjoys a considerable price advantage.

At the same time, we fear that we may not have succeeded in convincing Ministers of the considerable worldwide market opportunities which would open up to Lucas, if the Government decided to buy British HARM. Both Lucas and Texas Instruments are convinced that this would be of the order of £200m.

We also fear that somehow or other the impression has grown that the jobs argument favours ALARM. We believe that while there is not much in it in the short term, the market which Lucas would be entering with HARM would endure for 20 years or more - as would the jobs.

From Chairman:
The Rt. Hon. John Peyton, ~~MP~~
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We understand the inclination of Ministers to use, if at all possible, this opportunity to establish a UK based microwave technology; we believe however, there are other and better opportunities for doing so in the anti-radar missile field. Had it been clear from the outset that this consideration would be decisive, neither Texas Instruments nor Lucas could have taken part in the contest.

Yours Sincerely,

John Peyton



J

HART/ARCT
✓
C for GR?
Key
4/7

10 DOWNING STREET

Key
Dunn
Thanks
(19)

From the Private Secretary

1 July 1983

The Prime Minister has read and noted the contents of your letter of 28 June, for which she has asked me to thank you.

A. J. COLES

The Rt. Hon. John Peyton

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Richard Mottram Esq
Private Secretary to the
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

28 June 1983

Dear Richard

HARM AND ALARM

Following OD on 16 June, the Chief Secretary was contacted by Michael Colvin MP who seemed remarkably well informed about the discussion and pressed the British Aerospace's case for ALARM. I attach a copy of a note that BAQ sent to follow up the discussion. The Chief Secretary was contacted also by the Rt Hon John Peyton, Chairman of the Texas Instruments, (who seemed rather less well informed) and raised with him the question of the security of Lucas's position as sub-contractor. I attach a copy of the letter that he subsequently received.

The Chief Secretary will reply simply to thank those concerned for sending him the submissions and assuring him that their points will be taken into account. Although you may have seen this material before, he has asked me to send copies to you and other members of OD.

Yours sincerely

J. Gieve

JOHN GIEVE
Private Secretary

CONFIDENTIAL

From Chairman:
The Rt. Hon. John Peyton, MP
6 Temple West Mews,
West Square,
London, S.E.11.
Telephone 01-582 3611

CHIEF SECRETARY	
REC.	24 JUN 1983
ACTION	Mr J-P Wilson
COPIES TO	PPS PST Mr Middleton Mr Bailey Mr Bryant Mr Hiscott

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23rd June 1983

John Peter

You mentioned to me the other day that there is concern amongst your colleagues as to whether Lucas would have a full opportunity to participate in world-wide sales of HARM by the way of sales of material back to the U.S. I should explain that all sales of HARM to countries other than the U.K. are likely to be handled by the U.S. Government on a F.M.S. (foreign military sales) basis.

U.S. Defence Acquisition Regulations, which govern all such transactions, require that main contractors should satisfy the Department of Defence that their suppliers are competitive. Bearing in mind the level of the company's current bid, I would not expect this to be a source of difficulty.

It is the intention of Texas Instruments to use Lucas Aerospace and its sub-contractors as a second source of supply for HARM components and sub-assemblies. It is our belief that Lucas will be in a position to secure a share in the market of around 25% of the total missile value, excluding the seeker.

I know that those who have worked with Lucas on this project have, like myself, formed a very favourable impression; we shall be doing all we can to help and encourage them.

John Peter

The Rt. Hon. Peter Rees, Q.C., M.P.

ALARM

Introduction

BAe and its sub-contractors in designing and developing ALARM have met all the requirements laid down by successive Defence Ministers that the missile system should meet the RAF requirements, be competitively priced and should also be exportable. Feasibility studies were completed in 1979 and since then development has continued at a low key with about £5M of company money.

Export

The production to research and development ratio and the total benefit to the UK economy depends to a large extent on overseas sales. The ALARM missile will be substantially cheaper in the overseas market than HARM; £160k to £320k respectively. The £320k figure for HARM being obtained by FRG sources. In addition, ALARM is lighter and can be fitted easily to small aircraft and helicopters. BAe is convinced that ALARM will become a major export earner similar to RAPIER. Irrespective of US claims for the overseas sales of HARM, the majority of defence suppression weapon sales will be achieved by the most competitively priced missile which is ALARM.

The Governments of Germany, Switzerland, Italy and Sweden which have a known requirement for a defence suppression system are awaiting the decision of HMG on whether they procure ALARM before finalising their own procurement. The development and availability of ALARM can enhance exports of British military aircraft such as Tornado and Hawk. In addition, major aircraft manufacturers are already recognising the advantages of ALARM in their own export programmes, eg General Dynamics want to integrate ALARM on export F-16's.

Cost of Purchase

BAe have quoted a fixed price of £276M for the development, production and spares for 750 missiles and have accepted liquidated damages on the delivery of the first 100 missiles. BAe will require no more financial assistance in order to meet the contract and no contingencies should be added to the BAe price. The BAe price per missile to the UK Government is approximately £108k.

Looking at the HARM programme and costs, it is difficult to foresee what price HMG may eventually have to pay for the HARM missile. John Lehman, Secretary of UN Navy, in his letter of 1 December 1982 to

Chairman, House of Representatives Armed Services Committee, quoted an estimated 1983 price of \$439k (£289k) for HARM if he achieved cost cutting exercises and the competition of a second source. As yet, neither has been achieved and the Air Force were told by Defence Secretary, Caspar Weinberger, on 20 April to forget second sourcing and concentrate on developing a new "low cost" seeker head. In addition, the expected US buy of HARM has already been reduced from 21000 to 14000 missiles because of an Air Force cut-back and the Navy are now considering a cut-back which could reduce the total to 9000. It is difficult to see other than escalating costs for HARM with a continuing cut-back in demand and with work already starting on a lower cost alternative. If the UK Government had faith in ALARM and UK technology the US alternative requirement could be met by ALARM.

Bae believe that the eventual price paid for HARM by the UK Government even for 750 missiles will be substantially higher than forecast and the difference in price between the HARM and ALARM buy will be substantially reduced. Also the latest RAF AST 1238 for an anti-armour weapon requires the support of defence suppression weapons in the battlefield. Thus, the eventual RAF missile buy will be much larger than the 750 need for counter-air strikes thus further reducing the price differential if not reversing it.

A financial balance sheet concentrating on overseas sales is shown in Appendix A. The advantage in UK employment and exports is overwhelming in favour of ALARM without any consideration of an increased RAF buy.

The Two-way Street

The ALARM system, in being pitted against the US HARM has uncovered further controversy on the 1975 US/Europe Two-way Street agreement. European companies, including those in the UK are perpetually worried about the apparent imbalance of defence equipment sales and the difficulty of selling high technology equipment against politically entrenched US companies.

Imports deny Bae and other aerospace companies the opportunity to re-invest their profits in product developments, research or capital facilities that will enable them to compete more effectively in the next generation weapon systems. Indeed, they compound the problem by offering the overseas manufacturers the opportunity to improve their research and capital facilities. Technological developments emanating from the defence industry have a considerable impact on industry generally. Anything that restricts technological advancement must

continued . . . 3

have an adverse effect on industry as a whole. It is understood that the United Kingdom is procuring some £5-6 billion worth of advanced equipment from the United States over the next 5 years. This includes Trident, Chinook helicopters, Phantom aircraft and HARPOON missiles with other equipment being considered. Offset for British industry is always difficult to achieve and we are already facing major resistance from the United States on Trident. In addition, a member of the House Banking, Finance and Urban Affairs Committee is seeking to initiate legislation restricting the use of offsets.

The initiatives of the US Under Secretary of State for Defence, Dr DeLauer, on industrial co-operation between the United States and other NATO countries are recognised. However, it should be pointed out that the programmes proposed either contain no high technology or missile programmes and would probably provide more technology to the United States than would be available to Europe. This is re-enforced by the proposed MoU between the Federal Republic of Germany, United Kingdom and the United States concerning the long range stand-off missile system. This MoU categorically states that no high technology will be transferred by the United States or United States industry to other participating governments.

In the particular case of ALARM versus HARM, it is believed that one of the reasons for pressure being applied from the US is due to their planned domination of the world market for defence suppression weapons. The emergence of ALARM with its potentially wider fit capability and of course its lower price, means that HARM, whose production numbers have already been reduced, could be further restricted. This would have the effect of increasing the price of HARM beyond that already anticipated.

HARM, should it be purchased by HMG, will not result in any high technology development or production offsets in this country and those parts which are offset are those which would be offered to other countries to support sales.

As far as other possible deals with the USA are concerned, BAe and GEC do not want ALARM to be offset against any possible US purchase. They wish each case to be considered separately and fought on its own merits. ALARM must not be used as a "sweetener" to the USA.

Conclusion

The missile price of ALARM is fixed and in the out-turn will be substantially less than that of HARM. Also the number of missiles that the RAF will eventually have to buy will more than offset the cost of developing ALARM. In addition the competitively priced missile ALARM will capture a very large slice of the world market for defence suppression and prove a major export earner.

Appendix A

THE HARM/ALARM BALANCE

FINANCIAL

A. HARM

1. UK Buy of 750 HARM at £170k per missile = £128M
Lucas Aerospace Share = 50% x £128M = £64M
2. Lucas expect 10% of US Market
ie 14,000 x 10% = 1400 missiles = £238M
3. For HARM export other than UK assume
that Lucas get 10% of 4000 missiles
= 400 missiles = £68M
4. Total Lucas revenue = £370M
5. Excess revenue (less UK buy) = £242M

NB HARM missile price assumed £170k

B. ALARM

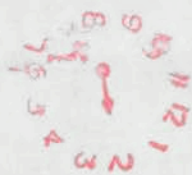
1. UK buy of ALARM (750) = £276M
(includes R & D etc)
2. 4000 ALARM export
(ALARM export price £160k) = £640M
3. BAe revenue = £916M
and excess revenue (less UK buy) = £640M

Therefore ALARM and HARM on the same
basis, ALARM advantage is £640M-£242M

= £398M

DEFENCE : Norm / Alom

March 83



28 JUN 1983

Prime Minister.

Ref. A083/1885

MR COLES ✓

HARM/ALARM

--- The Prime Minister may like to see the attached copy of a letter which I have received from the Chairman of Lucas about the export prospects for HARM.

2. I should also say that Mr John Peyton rang up this morning, indicating that he might seek a meeting with the Prime Minister on this subject. I suggested that he should approach you.

I asked him to send a letter instead - submitted to Prime Minister last night.

A.S.C. 22/6.

ROA

ROBERT ARMSTRONG

28 June 1983

Lucas

Lucas Industries plc
Great King Street
Birmingham B19 2XF

Chairman

Telephone: 021-554 5252
Telex: 338681

Sir Robert Armstrong GCB CVO
Secretary of the Cabinet
Cabinet Office
70 Whitehall
London SW1A 2AS

27 June 1983
GM / DT

CABINET OFFICE	
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27 JUN 1983	
FILING INSTRUCTIONS	
FILE No.	_____

Dear Robert,

cc - Mr Goodall
~~Mr Facer~~

In a meeting last week the Chief Secretary to the Treasury put the following question to John Peyton - "how copper bottomed is the assurance that Lucas will get its share of future sales of HARM to 3rd countries and to the USA?". I thought a note from me to clarify the position might be helpful.

*Disputed
by SAe
MR 29/6*

Worldwide HARM sales are likely to be around 25,000 of which up to 20,000 will be in the USA. Apart from the United Kingdom it is expected that almost all the remainder will be exported as Foreign Military Sales by the United States. Thus the major opportunity to gain a share of the overall market is through the US programme.

*An
important
qualification
MR 29/6*

Given that the UK buys HARM, Lucas Aerospace has an unrivalled opportunity to export weapon sub-assemblies back to the United States of America. The US Government has just confirmed its decision to increase the production rate of HARM from 25 per month to 250 per month. Texas Instruments purchases around 70% of the weapon by value and have stated that they will need to increase the number of suppliers on every bought out item to cope with this increased requirement. Any new suppliers will need extra programme funding to qualify them as HARM component manufacturers. The UK team comprising in particular Lucas Aerospace and the Royal Ordnance Factories will, however, have the advantage of being already qualified as a consequence of the British HARM programme. In other words, save for existing US suppliers we shall be in a better position than any other company worldwide to capture HARM business. Other potential suppliers must go through an expensive and time consuming vendor qualifying process. They will, in consequence be at a severe competitive disadvantage, requiring additional expense on their own part or that of TI and the US Government. Taking into account the UK cost level on British HARM,

Continued/.....

Lucas and, more significantly, Texas Instruments believe our team will obtain 25% of the value of the total US HARM programme, apart from the guidance section.

Indeed, Lucas have already obtained a production order for actuators and three qualifying contracts for roll motors and rocket motor cases on the US HARM programme. The UK decision to buy British HARM would enable us quickly to turn these initial contracts into bulk orders, both for these few items and the complete range of components comprising the British share of the weapon.

Our confidence in this is founded on our considerable experience over many years in the US missile market. In 1983 alone Lucas Aerospace will sell over three times as much by value to various US missile programmes as to the total UK missile industry. The real copper bottomed guarantee that we can obtain this share of the total HARM programme must ultimately lie in our continuing ability to deliver the goods competitively; this we are doing in the overall US missile area right now. The size of the unrivalled opportunity presented by this programme provides us with the best chance possible to sustain our existing international competitiveness in this market long term.

Our experience with Texas Instruments makes me very confident that we will get a fair deal.

Yours sincerely
Godfrey

GODFREY MESSERVY

28 JUN 1962



PRIME MINISTER

Harm and Alarm

I think you should know that I receive daily telephone calls from John Peyton about this subject. He is of course a lobbyist for Harm and especially for Lucas who hope to be associated with one arrangement involving the purchase of Harm.

John Peyton recently wrote to Michael Heseltine setting out his case. He is considerably annoyed with the reply that Geoffrey Pattie has sent him in Michael Heseltine's absence in Perth yesterday - he regards this as a brush off.

John Peyton told me yesterday that the Chairman of Lucas believed that of the 24 marginal seats in the West Midlands and the North West in the forthcoming election, 13 could be favourably influenced by a decision to purchase Harm but only 2 by a decision to purchase Alarm.

I promised to bring this view to your attention.

Surely we are having a meeting out

A. J. C.

13 May 1983

A

John Cores

From Chairman:
The Rt. Hon. John Peyton, MP
6 Temple West Mews,
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MANTON LANE BEDFORD MK41 3PA ENGLAND
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11th May 1983

Dear Michael

I was informed by telephone from Dallas early this morning that a decision either had been made or was about to be made to choose ALARM.

I was at first inclined to disbelieve this, and would still like to do so, for the following reasons. First, according to our information, HARM has had much the better of the operational argument. Secondly, it is currently available and not merely in the conceptual and design stage. Thirdly, the export potential, which would emerge for Lucas from the choice of HARM, would be a powerful argument in its favour. Fourthly, if election considerations were to influence the decision, then Lucas' substantial presence in sensitive constituencies would at least match anything which could be said for ALARM on this score.

I must make clear to you my view that a decision to choose a missile, which does not yet exist and to reject one, which does and is proven, would involve an unacceptable risk in an area for which you have great and personal responsibility.

Godfrey Messervy, Chairman of Lucas asks me to say that he agrees with all that I have said. Acops goes to the P.O.

The Rt. Hon. Michael Heseltine, M.P.

How's how John